

EUROPEAN INTEGRATION AND THE EAST-CENTRAL EUROPEAN 'OUTSIDERS'¹

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There are at least two obstacles to analysing the problems of an extension eastwards of the EU from a housing policy point of view. One is the general lack of information about the housing component of European integration. The second is the lack of reliable comparable information on housing, not only showing the differences between Western and Eastern European countries, but between the eastern countries themselves. The situation has somewhat improved in the last years in relation to the second problem with the completion of the East-Central European Regional Housing Indicators project (funded by USAID with additional help from UNCHS/Habitat and the ECE) from which comparable information is available on the relative housing situation of the individual Central and East European countries.

In this chapter we address three important questions from a housing policy point of view:

- What are the pros and cons for the EU of an extension to the east?
- What are the expectations of and possible effects on the eastern countries regarding joining the EU?
- What kind of differences exist between the countries of central and east Europe regarding their desire and ability to join the EU?

We have to emphasise that at this moment we cannot give well-documented answers on these questions. However, we can use the available (limited) empirical data, and, just as importantly, place these questions into a coherent framework.

The Central and Eastern European region: background

Classifying the countries of the Central and Eastern European region

As the consequence of the dramatic changes (the formation of nation-states) of recent years the number of countries in the Central and Eastern European region has increased greatly. According to some calculations there are more than forty 'transitional' countries (on their way from planned to market economy) all over the world, the majority of which are in Europe or in the adjacent areas. We cannot deal with this number of countries but there is no need to do so as the problem of EU integration is limited to a much smaller circle of countries. As a working hypothesis (taken from Pickel and Pickel 1995) we can establish four groups of countries which can be regarded as being in different positions from the point of view of EU integration.

The group of post-Soviet states (referred to later in this chapter as 'Eastern East European' or EEE countries) has the least chance of joining the EU in the short term. However, this does not mean, as we will see, that they do not have such hopes in the longer term.

The North Eastern European (NEE) countries, although having already strong ties to Western Europe, especially the Nordic countries, are in a special position as a consequence of the special interest Russia still expresses towards any idea of this group joining the EU or NATO.

The group of South Eastern European (SEE) countries is a very mixed group, consisting of countries in very different positions regarding their economic and political development. Some of these countries have definite political aims to join the EU already in the first round, while others do not aim for this in the short run or do not see it as realistic.

The Central Eastern European (CEE) countries consist of the V-4 (Visegrad) countries plus Slovenia as the least war-affected Yugoslavian successor state. This

Table 15.1 The classification of countries in the Eastern European region from the point of view of EU integration

<i>Central Eastern European states</i>	<i>South Eastern European states</i>	<i>North Eastern European states (Baltic countries)</i>	<i>Post-Soviet states</i>
Poland	Romania	Latvia	Euro-Russia
Czech Republic	Bulgaria	Lithuania	Belorussia
Slovakia	Macedonia	Estonia	Ukraine
Hungary	Albania		Armenia
Slovenia			Georgia

Source: Pickel and Pickel (1995).

Note

Croatia and Yugoslavia could be classified into the South Eastern European group.

group of countries forms the CEFTA (Central European Free Trade Area) group which aims to decrease inter-country barriers to trade. The CEE countries are now the 'neighbours' of the EU and have already built up strong relationships with some of the institutions of the EU.

The idea of a 'buffer zone' on the eastern border of the EU (see Wallace *et al.* 1995) is illustrated in Figure 15.1. The four countries belonging to this zone consist of those which are in a geographical sense in between the EU and the successor countries of the Soviet Union. From the beginning of transition it was clear that countries with seventy years of socialist-communist heritage need more time to adjust to the democratic and market-based model than countries with 'only' forty years of that heritage. Furthermore, within the latter group, the EU neighbour countries are in a special position.

It was an early recognition of the EU that the potential problem of a mass exodus from the east to the west could be handled (only) by establishing a new 'iron curtain' on the eastern border of the EU. A much better solution is to create relative stability in the neighbouring countries and try to convince them that, in the hope of early NATO and EU membership, they should contribute to the guarding of the eastern border of the EU (see Wallace *et al.* 1995: 41) The special handling of the buffer zone means that the CEE sub-region is in a naturally advantageous position with regard to joining the EU.

The East European model of housing policy

In earlier articles (e.g. Hegedüs and Tosics 1996) we have described in more detail the logic and the historical development of the housing policies of the Central and East European countries and we called this special form of housing policy the East European Housing Model (EEHM). The main features of this type of housing policy were direct state control over housing built by the state, co-operatives and saving banks (allocated partly on the merit principle, partly according to social principles), and indirect state control over private forms of housing connected with the control over households' income. There were some changes in the development of this model in the different countries (described as 'cracks' in the originally unified model). The 1970s and the first part of the 1980s were the 'best years' of this kind of housing policy in most Central and East European countries, showing a relatively high level of new construction (almost 10 new units per 1,000 population per year in Hungary).

In our analysis we showed that this system functioned with huge problems (inefficiencies and inequalities) regarding the allocation of subsidies, the use of investment in the building industry, the urban consequences of new construction, etc. Even in the period of relatively high budget expenditures on housing, EEHM was a quite ineffective way of allocating this money. Over-centralised, over-controlled housing policies were developed, which, being almost totally dependent on the state budget, had to be changed at the first signs of budget difficulties.



Figure 15.1 North Eastern, Central Eastern, and South Eastern European states

Source: Pickel and Pickel (1995), Wallace *et al.* (1995).

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In some of the countries the changes came some years before the change in the political system. Slovenia, Hungary and Poland started to reform their housing policies in the 1980s, decreasing control over the private sector and changing the subsidy system to a more balanced one, across the different housing forms. In most of the countries of the region, however, the really substantial changes came in the early 1990s, mainly in the form of massive give-away privatisation of the public rental housing stock. As a result, the control of the state decreased to a minimum level, both regarding political-legal regulations and the share of the non-private housing forms. Housing policies of the countries of the region became even less regulated and less state-controlled than those of the Western European countries.

Evaluation of the political and economic situation in the East European countries

In the last few years extensive attitude surveys have been carried out to get an overview of the opinion of the population regarding the most important processes of change. Figure 15.2 shows the outcome on two questions, the first of which measured the degree of satisfaction with the way democracy is run in the given country, while the second measured the subjective evaluation of economic development by the people. (The source is the Central and Eastern Eurobarometer 3 and 4, from 1992 and 1993, having approximately 1,000 random samples from each of the countries, see Pickel and Pickel 1995: 1-2.)

The results show a very differentiated picture within the CEE and SEE sub-regions, while the Baltic countries and the EEE group seems to be much more homogeneous. The authors conclude:

We draw the conclusion that the long-term perspective of political stabilization is built up on the short-term perspective of the current economical improvement, or properly speaking, on the appearance of a currently better economical situation.

(Pickel and Pickel 1995: 7)

While not denying the existence of such a correlation, there are also other determinants, in our opinion, influencing the level of satisfaction with the new political system. One of those is the past experience of each country with any kind of political freedom. The huge difference, for example, between the Czech Republic and Poland on the one hand and Hungary on the other regarding the satisfaction with the way democracy is run, cannot be fully explained on the basis of satisfaction with economic development. The very positive reaction of Czechs and Poles is obviously connected to the fact that political freedom in these countries before 1989 was much more limited than in Hungary.

There is another important factor to be measured, namely the differences

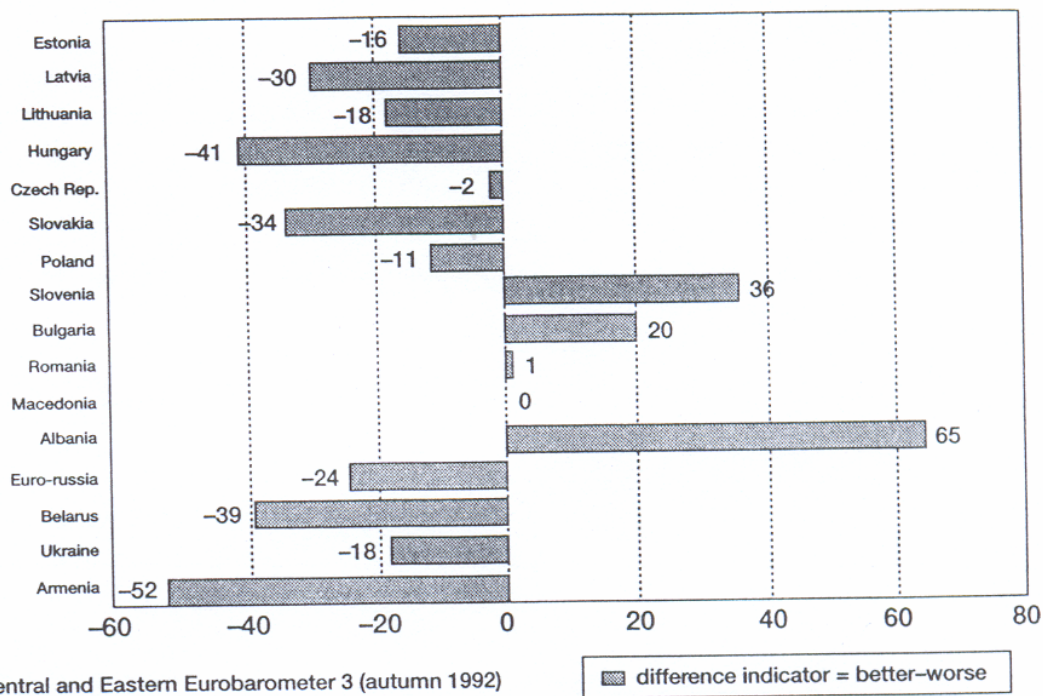
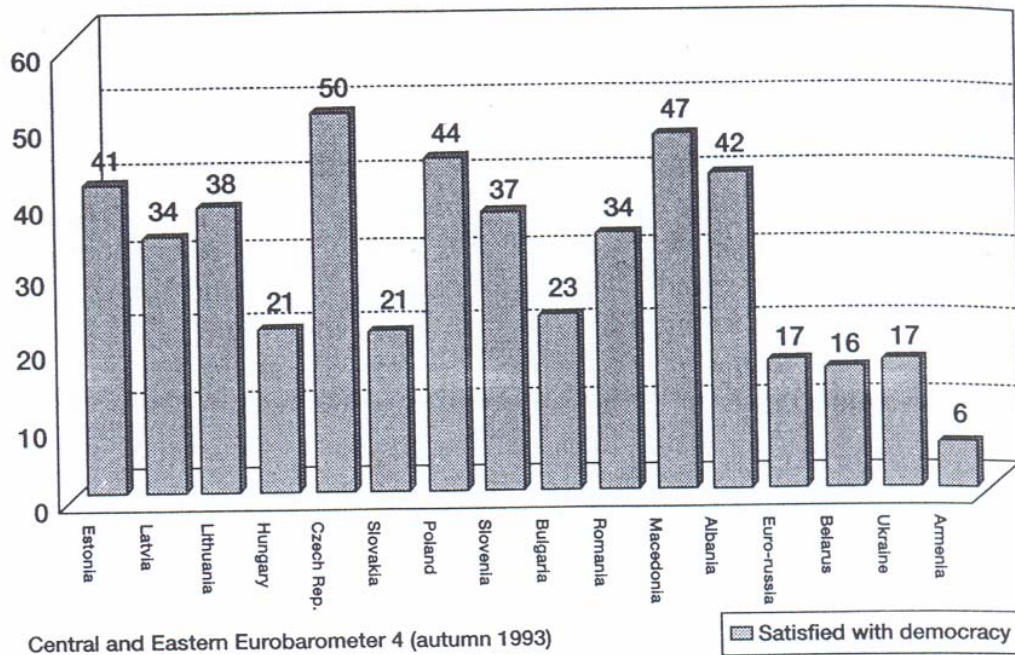


Figure 15.2 Satisfaction with the way democracy is run and anticipation of economic development in Eastern Europe

Source: Chart 15.3 and Chart 15.4 from Pickel and Pickel (1995).

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among the Central and East European countries regarding the desirability of joining the EU. Table 15.2 summarises attitudes to integration.

The first part of the table is based on the Central and Eastern Eurobarometer 3 (autumn 1992), relating to attitudes to joining the EU among CEE countries. The second half of the table is based on Eurobarometer 38 and shows the percentage of EU population accepting the citizens of the different Eastern and Central European countries.

The comparison of the two data-sets shows that the desire in the population to join the EU is the highest in the CEE and SEE countries, while data on the acceptance of the countries by the population of the EU show preferences for the CEE and Baltic countries. The group of EEE countries is at the bottom of both preference-lists. We should not accept the results of this type of evaluation uncritically. Apart from the methodological problems (scale differences, averages of countries of very different size) there is also a theoretical problem: the rejection of integration (or wanting to postpone it) can be based on very different attitudes: the Swiss or Danish type of arguments are completely different from the arguments of those who believe in the necessity of keeping a strong Eastern Europe and not integrating into the Western world. Another aspect is the

Table 15.2 Attitudes towards integration

	<i>Attitudes to the time-point of integration into the European Union</i>						<i>EU population: acceptance of the given country (per cent)</i>	
	<i>Never (1) (%)</i>	<i>Over 10 years (2) (%)</i>	<i>10 years (3) (%)</i>	<i>In 5 years (4) (%)</i>	<i>Now (5) (%)</i>	<i>Average of 1-5</i>	<i>Group average</i>	
Hungary	2	3	4	31	40	4.30		69
Czech Rep.	3	6	10	45	28	3.97		57
Slovakia	2	8	9	43	33	4.02		46
Poland	4	5	7	23	44	4.18		68
Slovenia	1	3	8	44	39	4.23	4.14	42
Bulgaria	1	4	6	29	30	4.19		52
Romania	1	6	2	13	66	4.56		52
Macedonia	4	3	2	15	70	4.53		36
Albania	1	19	25	32	12	3.39	4.17	35
Estonia	3	10	10	29	25	3.82		55
Latvia	2	7	12	32	25	3.91		53
Lithuania	1	17	21	36	13	3.49	3.74	53
Russia	4	21	21	22	2	2.96		47
Belarus	5	24	20	26	2	2.95		42
Ukraine	3	19	23	27	2	3.08		31
Armenia	5	23	18	25	7	3.08	3.02	44
								41.00

Source: Pickel and Pickel (1995).

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mixture of personal or patriotic wishes with political realities. However, there are no more detailed data available which would make it possible to refine the results.

The housing situation in the East-Central European countries

In this chapter we give a short overview on the housing situation of the East-Central European countries (and where possible, also in comparison with data on the EU countries). We do not have all the data necessary to show the differences among the four groups of countries (in particular data for the EEE group are missing) thus the following tables are only illustrations. Our results (taken from the USAID funded database, MRI, 1996) – concentrating on the first three sub-regions – show the need to continue the work on a system of reliable regionally relevant indicators in order to understand the specifics of the transition process in the East-Central European countries. The analysis and evaluation of data in this section is based mainly on Hegedüs *et al.* (1996).

The new tenure structure and basic quantitative/qualitative indices

From Table 15.3 it can be seen that there is no common tenure structure pattern in the region and there are huge differences even within countries belonging to the same group (cf. the difference within the CEE sub-region, i.e. between the Czech Republic, Poland and Slovakia on the one hand and Hungary and Slovenia on the other). As a consequence of massive privatisation in some countries the share of the owner-occupied sector became very high, much higher than 'necessary' taking the high proportion of families below the poverty line into account. By comparison, EU data on homeownership show a spread between 38 per cent and 81 per cent which is a smaller range than that between the countries listed in the table. The share of the rental sector is higher in the EU countries than in the transitional countries, mainly due to the very big difference in the share of the private rental sector.

In most of the EU countries housing shortages on the national level disappeared as early as the 1970s and the number of housing units exceeded the number of households. This was not the case in the East-Central European countries. Migration from rural to urban areas was still strong and in most of the countries huge state-subsidised new housing construction programmes had to be initiated in the 1970s. As a result (see Table 15.4), urban housing shortage is not a general problem of the region any longer in the mid-1990s (except for some of the countries, notably Poland, and most of the successor states to the Soviet Union). However, the densities shown in Table 15.4 highlight the special situation of the countries of the SEE sub-region: the number of flats equals or even exceeds the number of households, but the size of the flats (number of rooms and floor area) is very small, resulting in high density indices.

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Table 15.3 The tenure structure in Eastern Europe around 1994 (%).

	<i>Public rental</i>	<i>Private rental</i>	<i>Other rental</i>	<i>Owner occupied</i>	<i>Other (e.g. co-op)</i>
Czech Rep.	27.6	4.7	6.1	42.2	19.4
Hungary	13.0	1.0	NAV	86.0	0.0
Poland	25.4	5.2	13.5	41.7	14.2
Slovakia	26.0	0.5	0.5	51.6	21.4
Slovenia	8.9	3.4	0.0	87.7	0.0
Total CEE	23.1	3.9	8.2	52.0	12.8
Albania	2.0	NAV	0.0	98.0	0.0
Bulgaria	6.8	3.2	0.3	89.7	0.0
Croatia	10.6	3.7	NAV	84.5	1.2
Romania	7.8	3.0	0.2	88.9	0.2
Total SEE	7.6	3.1	0.2	89.1	0.3
Estonia	56.0	5.0	3.0	30.0	6.0
Latvia	54.0	5.0	2.0	39.0	0.0
Lithuania	12.9	8.5	0.0	78.6	0.0
Total Baltic	36.4	6.5	1.3	54.4	1.3
Total transition countries	18.6	3.8	5.9	64.2	7.5
Total EU	14.1	21.2	2.4	58.7	3.6

Sources: For data on the transitional countries, MRI (1996); for the EU data, EU (1993); there are fourteen countries included (the twelve former EU members with Austria and Sweden).

Note

NAV means that data are not available. The individual country data are weighted by the number of dwellings to get the regional averages.

The development of infrastructure showed a special pattern in the socialist period: the limited amount of capital devoted to infrastructure was concentrated on the cheaper sectors (such as water supply) as opposed to the more expensive ones (such as sewage systems). As a result a big 'infrastructure scissor' developed in all of the transitional economies: the piped water system is much more developed than the piped sewage system. 'Second-best' methods, such as septic tanks (which needed private instead of public investment and were cheaper in terms of the immediate investment costs, even if they had serious environmental consequences in the longer run), were widely used to compensate for the lack of sewage systems, making possible the relatively high share of flats with bathrooms.

EU data show a substantially better situation in the number of dwellings and their size/quality, compared to the situation in the transitional countries.

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Table 15.4 Basic quantitative and qualitative aspects of the housing stock 1994

	<i>Housing units per 1,000 people</i>	<i>Household per dwelling</i>	<i>Square metres per person</i>	<i>Person per room</i>	<i>Piped water (% of flats)</i>	<i>Bath or shower (% of flats)</i>
Czech Rep.	397	1.01	25.5	1.04	96.9	90.9
Hungary	385	0.99	32.1	0.92	82.9	85.9
Poland	296	1.06	18.2	1.02	84.2	71.5
Slovakia	334	1.00	21.9	1.14	91.8	88.9
Slovenia	338	0.95	19.0	1.33	97.4	86.6
Total CEE	330	1.03	22.4	1.02	87.4	79.6
Albania	219	1.00	8.0	2.70	57.5	54.0
Bulgaria	405	0.88	16.7	1.00	83.4	44.7
Croatia	336	0.98		1.10	86.2	75.7
Romania	341	0.95	17.4	1.19	53.6	48.2
Total SEE	344	0.94	16.6	1.21	65.3	50.9
Estonia	410	1.03	32.0	1.18	89.7	73.2
Latvia	370	1.13	20.9	1.21	76.6	65.9
Lithuania	329	1.06	19.7	1.30	58.9	53.8
Total Baltic states	358	1.08	22.8	1.24	71.7	62.2
Total transition countries	337	1.00	20.4	1.11	78.4	68.2
Total EU countries	428		34.7	0.6		93.3

Notes

- a Numbers in italic are from UN (1995).
- b Data for Lithuania exclude private ownership dwellings.
- c The individual country data are weighted by the number of dwellings to get the regional averages.

Affordability issues: 'rent to income' and 'housing cost to income' ratios

Social issues are extremely important in the process of transition. The measurement of affordability was an important part of the original set of key indicators (established by UNCHS/Habitat and the World Bank), but the indicator 'rent to income' did not take the total housing-related cost into consideration. In the socialist countries both rents and services/utilities related to housing were heavily subsidised. In the transition period it was easier for the state and the local governments to cut the subsidies on services/utilities than on rents. For example, the prices of energy, water and sewage, and garbage collection were increased in many of the countries more or less to world market level.² Thus the indicator

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Table 15.5 Housing expenditures (rents and utilities) to income in the public rental sector in 1990 and 1994

	<i>Rent to income (%)</i>		<i>Utility expenses to income (%)</i>		<i>Total housing expenses to income (%)</i>	
	1990	1994	1990	1994	1990	1994
Czech Republic	2.7	3.1	3.9	7.8	6.6	10.9
Hungary	5.0	3.8	5.0	19.7	10.0	23.5
Poland	1.0	1.8	5.0	11.1	6.0	12.9
Slovakia	5.0	5.3	7.2	14.7	12.2	20.0
Slovenia		5.2		9.1		14.3
Total CEE	2.4	2.7	5.0	12.4	7.4	15.1
Albania	1.0					
Bulgaria	15.2	1.3	6.8	6.8	22.0	8.1
Croatia						
Romania	8.3	0.2	8.3	9.5	16.6	9.7
Total SEE	10.4	0.5	8.0	9.2	18.4	9.7
Estonia		4.2		9.9		14.1
Latvia	0.8	1.8	1.5	9.1	2.3	10.9
Lithuania		1.5		17.5		19.0
Total Baltic states	0.8	1.7	1.5	13.9	2.3	15.6
Total transition countries	5.1	1.9	5.8	11.4	10.9	13.3

'total housing expenditures to income' (column 3 in Table 15.5) shows better the changes than the indicator 'rent to income' (column 1 in Table 15.5).

The average total housing expenditures to income are still lower than in most of the EU countries. However, as a consequence of the much lower level of household incomes, even a 20–25 per cent housing expenditure ratio causes hardship to many families. This also means that local and/or central governments have problems in increasing the low level of rents. The fact that utility price increases are 'crowding out' the possibilities of rent increases has serious consequences for the chances of renovating/modernising the run-down multi-family housing stock.

It must be mentioned that the indicator 'median house price to income' ratio (the ratio of the median free-market price of a dwelling and the median household income) is calculated from the total housing stock, not just new units. The price of newly constructed units is still very high compared to income all over the region.

Because of the major restructuring now under way in East-Central Europe some of the relations known from economics take a special form. It is a well-known fact that house prices (even if subsidised and in some countries

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administratively controlled) were in the socialist system very high compared to incomes in the East-Central European region. Since the collapse of the socialist housing model, housing prices, both for newly constructed units and for real-estate transactions, are free to be set by market forces. As an additional fact, data show that countries are experiencing a major decrease of new housing output (see Table 15.7). These facts, however, have an unexpected relation to the change in housing prices. Despite the fact that in the centrally planned housing systems housing price inflation was much higher than the consumer price index (CPI), in the last few years, when price setting became free and construction dropped dramatically, house price inflation – as shown in Table 15.6 – dropped as well, below the level of the CPI. The median ‘house price to income’ ratio has dropped from a level around 6.7 in 1990 to 4.4 in 1994 (within capital cities the drop was from 9.3 to 6.8).

Possible explanations for this paradoxical situation, which relate closely to transitional issues, could be as follows:

- housing ceased to be the major and safest form of savings, as there are other legal possibilities
- privatisation and restitution freed an additional supply of housing, which pushed down prices

Table 15.6 Housing price-to-income ratio and house price inflation in the owner-occupied sector

	<i>House price to income (ratios)</i>		<i>Real house price inflation (%)</i>
	<i>1990</i>	<i>1994</i>	<i>1994</i>
Czech Republic	NAV	5.6	2.0
Hungary	5.9	5.7	–4.0
Poland	NAV	3.2	–9.0
Slovakia	4.0	5.6	–6.8
Slovenia	NAV	7.0	–2.7
Total CEE		4.3	–6.2
Albania			1.2
Bulgaria	25.0	5.8	–1.9
Croatia			
Romania	16.6	4.7	–30.0
Total SEE		5.0	–17.7
Estonia	NAV	3.6	–25.0
Latvia			
Lithuania	NAV	3.2	–4.7
Baltic states		3.3	–10.5
Total transition countries		4.4	–10.4

Table 15.7 Measures of new investment into the housing sector

	Housing investment to GDP		New construction per 1,000 population			Population change	Household formation/ 1,000 pop.	Size of new units in square metres	
	1990	1994	1994/ 1990	1990	1994			1990-1994 annual change	1990
Czech Republic	3.2	2.4		4.3	1.8	42%	0.00244	77	87
Hungary	4.2	2.8	67%	4.2	2.1	49%	0.00080	90	101
Poland	5.2	1.8	35%	3.5	1.9	54%	0.00066	77	89
Slovakia		0.2		4.9	1.3	27%	0.00042	82	94
Slovenia	4.2	3.0	71%	3.9	2.8	72%	-0.00038	93	102
Total CEE	4.2	2.0	48%	3.9	1.9	49%	0.00091	80	92
Albania	1.4			3.9	3.7	95%	NAV	36	
Bulgaria	1.5	0.8	53%	3.0	1.1	33%	NAV	72	84
Croatia	3.2	2.0	63%	3.9	2.0	51%	NAV	80	84
Romania	0.9	0.7	78%	2.1	1.6	76%	NAV	47	66
Total SEE	1.4	0.9	64%	2.6	1.6	62%	NAV ^a	61	72
Estonia		0.2		4.8	1.3	27%	-0.00481	62	82
Latvia	4.5	1.6	36%	5.0	0.3	6%	-0.0074	61	79
Lithuania		2.7		6.0	1.8	30%	-0.00034	64	101
Total Baltic states	4.5	1.8	40%	5.4	1.2	22%	-0.00353	63	92
Total transition countries	3.2	1.6	50%	3.6	1.8	50%	0.00029	73	86
Total EU countries					5.0				92

Note

a There is no reliable data available for the number of households in 1994 in any of the SEE countries.

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- because of decreasing GDP (and real income) households save more and do not invest in housing
- housing markets function better, residential mobility is increasing, restrictions on multiple ownership are eliminated
- the private construction sector is producing housing with characteristics sought after by those who previously were most constrained in their choices.

Yet the 'house price to income' ratio in the capital cities is still high when compared to that found in other comparable cities.

Changes in housing output

Production and investment both fell sharply over the period 1990–1994. Investment in housing relative to GDP fell from 3.2 per cent to 1.6 per cent (an average fall of 50 per cent) and ranged from a 65 per cent decline in Poland to only 22 per cent in Romania.

Output in physical terms also fell from 3.6 dwellings per 1,000 people in 1990 to 1.8 per 1,000 in 1994, a drop of 50 per cent, with the steepest drops in the Baltics. (EU countries have an almost three times higher new construction rate, despite the already better housing situation.) Notwithstanding these drops in physical production, in a number of countries in the region (notably in the Baltic countries and in Slovenia) the number of households fell over the same period, while in the CEE countries the increase in the number of households was smaller than the increase in the housing stock. As a consequence, the net number of dwellings per household actually increased in the region, i.e. the household/dwelling indicator decreased from 1.02 to 1.00.

The opening up of housing markets to private construction activity has resulted in a significant increase in the size and quality of dwellings being produced, generally in response to effective demand in parts of the market that were restricted as a measure of policy in the former system. From 1980 to 1990, average unit sizes of newly built dwellings had increased from 62 to 73 square metres, an increase of about 18 per cent. But in the subsequent four years the average size of new units being produced grew to 86 square metres – an average increase of 22 per cent (and a range of growth between 5 and 58 per cent within the region). One measure of the extent of this 'upmarket' move in production comes from comparing production in Eastern Europe to that of Western Europe, where the average size of newly built dwellings in 1994 was 92 square metres – a difference of less than 10 per cent despite the fact that officially measurable incomes in Eastern Europe were only about one-eighth as high as those in Western Europe.

Housing finance

The role of housing finance within the overall financial system, which was generally small to begin with, has generally lessened over the early years of the transi-

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tion. This is partly due to the high nominal and real interest rates, partly to the lack of competition and other institutional problems. The Housing Credit Portfolio, the share of housing loans among the assets of the banking system, was below 9 per cent – a very low level even compared to countries at considerably lower levels of economic and financial development. As a consequence, the 'credit to value' ratio is also very low, only 12 per cent.

In the socialist housing system there was only one single bank to make all housing loans. By 1994, conditions were little changed: the median share of housing loans made by the largest lender in the sector had fallen only to 83 per cent. At the same time, however, lending practices were being rationalised throughout the region. The interest rate spreads between lending rates and deposit rates in housing banks became positive in most countries – even so, these were lower than spreads available on other types of lending, including that for central government financial obligations. This situation considerably dampened the willingness of even the housing banks to extend loans for housing. Nevertheless, according to Hegedüs *et al.*:

Other innovations, however, offered more promise in changing the incentives for banks to lend and households to borrow. These included the introduction of indexed mortgages such as the Deferred Payment Mortgage in Hungary, the introduction of a mortgage banking system which relies in part on issue of mortgage bonds to raise funds in the Czech Republic, and the introduction of a variant on the German Bausparkasse system in the Czech Republic and Slovakia.

(Hegedüs *et al.* 1996: 126)

The housing situation of East-Central European countries in a comparative view

At the end of our overview of the housing situation of the countries of East-Central Europe we compare some of the data of the twelve Eastern European countries to those of countries and cities in Western Europe,³ and countries and cities with similar levels of economic development throughout the world.⁴

Comparisons of key indicators at the beginning of the transition period suggest that the housing situation of most of the East-Central European countries (especially of those of the CEE sub-region) is surprisingly good compared to other countries of similar economic development. At the same time, the housing situation is substantially worse than in the EU countries. Consequently, the issue of housing shortage which is frequently alleged within the region is likely to be substantiated only on the basis of either inappropriate comparisons to Western Europe, with incomes eight times as high, or expectations which have been conditioned by decades of low and distorted prices.

On the other hand:

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Table 15.8 Housing finance indicators

	<i>Housing credit portfolio</i>		<i>Credit to value</i>	<i>Housing loan concentration</i>	<i>Housing loan to one year deposit</i>	
	1990	1994	1994	1994	1990	1994
Czech Republic	5.2	3			-3.0	6.0
Hungary	16.8	8.4	10.4	80	-0.1	8.1
Poland	4.1	19	17.9	96	-115.6	9.5
Slovakia	5.8	4.2	10	98	-1.5	5.2
Slovenia	25.5	14.9	37.2	42	NAV	2.8
Total CEE	7.0	13.6	16.5	91.4	-69.7	8.2
Albania		8.9		94	NAV	8.3
Bulgaria		1.9	5.5	85	-6.0	-8.0
Croatia				74		
Romania		0.6	3.7	85	-4.0	18.0
Total SEE	2.2	1.7	4.2	84.4	-4.5	10.7
Estonia		0			0.0	0.0
Latvia		2.8			NAV	50-100
Lithuania		2.7	16	40	-1.0	9.0
Total Baltic state		2.2	16.0	40	-0.7	20.8
Total transition countries		8.7	12.2	85.4	-42.5	9.9

Note

Weighted by the number of population in 1994.

there is ample evidence that there are significant problems in the distribution of housing. Relative to market-oriented economies, there is far less correspondence between household income levels and housing quality/quantity outcomes; and many more large households occupy small dwellings and small families large dwellings than is the case in market economies. The level of upkeep and maintenance of the existing multi-family housing stock is far below that of market economies, there is a significant 'deferred maintenance', relative to the economically necessary normal maintenance cycles.⁵ Relative to market economies, there is also a far more limited range of choice of available housing types, styles, and quality levels. Moreover, the spatial distribution of housing in Eastern European cities often exhibits a pattern heavily influenced by huge prefabricated housing estates in the outer zones of the cities, frequently resulting in more dispersed housing than that found in market economies, and resulting in higher costs of commuting to and from work, higher infrastructure costs, and higher energy costs. The resulting disequilibria between household preferences and housing outcomes creates much of what appears to be high 'excess demand' for housing which

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Table 15.9 Different measures of the housing situation around 1990 in the cities of three groups of countries

<i>Indicator</i>	<i>Country grouping</i>		
	<i>Eastern Europe</i>	<i>Income comparators</i>	<i>Western Europe</i>
Per capita GNP (\$/year)	2,552	2,431	19,792
Share of owner-occupied housing (%)	28% (cities) 58% (countries)	62%	65%
Rent to income (%)	5.7	20.5	15.9
House price (median dwelling) to income	9.3	4.2	4.7
Floor area per person (m ²)	19.6	14.0	32.3
Households per dwelling unit	1.12	1.16	1.02
Persons per room	1.28	1.74	0.67
Dwelling units per 1,000 people	366	207	481
Housing production: dwellings produced per 1,000 people	4.5	7.4	6.1
Housing investment as a share of GNP (%)	3.7%	6.3%	3.8%
Housing credit portfolio ^a	9.7%	15.6%	26.2%

Sources: Unweighted city data from around 1990, partly from the Extensive Housing Survey (World Bank), partly from the East Central European Regional Housing Indicators Database (MRI 1996).

Note

- a Defined as the ratio of the value of total housing loans to the value of all outstanding loans in both commercial and government financial institutions.

is reflected in high sales prices of housing relative to typical incomes, large black market premia for suitably located rental housing, and long waiting lists for state subsidized housing. These disequilibria impose costs not only on those whose preferences cannot be satisfied by the distributional system of the Eastern European housing model, but spill over into other areas of the economy as well, affecting negatively, in particular, labor markets – increasing regional wage differentials, distorting incentives for employers, and increasing levels of unemployment.

(Hegedüs *et al.* 1996: 106)

To sum up we suggest the following hypothesis: housing will not be among the major obstacles for the extension of the EU, because an acceptable minimum level of housing provision already exists in the countries of the East-Central European region. The serious problems with the distribution and quality of housing suggest, however, that there will be good opportunities for western institutions to invest in the improvement of the housing and urban sector of the region, especially taking into account the high expectations of population groups to live in better houses.

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Housing problems and policies in the EU and their relevance for the Eastern European countries

EU integration and the regulation of housing

The main principle regarding the Community's approach to housing is as follows:

In areas which do not fall within its exclusive competence, the Community shall take actions, in accordance with the principle of subsidiarity, only if and in so far the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community.

(Maastricht Treaty 1992, see McCrone and Stephens 1995: 181)

The necessity for co-ordination, or problems of scarce resources or disproportionate burdens would justify Community actions, but housing does not belong to these categories.

McCrone and Stephens (1995: 188) conclude:

it would be mistaken to accede to pressure to give the EU competence in housing policy or to think in terms of European funding directly for housing. There are no good grounds for supposing that policy can be more effectively operated at the level of the Union than that of Member States, or that the Union can achieve things that the states individually cannot achieve. There seems a clear case, therefore, for applying the principle of subsidiarity.

However, this does not mean that there is nothing to analyse. EU policies, the Structural Funds and European economic integration all have an effect on housing. The detailed analysis of the indirect effects of these programmes, however, is beyond the scope of this chapter.

Some critical housing issues in the unified Europe

In this section we raise some of the housing-related issues currently debated in the EU which may also have important consequences for the countries who want to join. At this stage we can only list these problems, rather than give a deep analysis.

Single market in mortgage lending?

McCrone and Stephens (1995: 218) show that 'inefficient' separated markets can be cheaper than a single market and that economies of scale are maximized below national level.

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This is an especially important problem for the East-Central European countries, where housing finance systems are still very underdeveloped. An efficient mortgage lending system is missing and there are also huge problems with construction period financing (for a detailed description of the problems see Struyk 1996: 34). Thus there is potentially a big market for the western financial institutions. However, foreign institutions face serious obstacles to an easy eastward extension of their activities: the solvent demand is on average low and substantial buying capacity is restricted to the thin upper layers of society, and there are still legal problems with the practical application of enforcing methods, such as eviction and foreclosure.

Housing and the international and inter-regional migration of the population

Free labour mobility is a key assumption of a single market and this is clearly connected with the flexibility of the main tenure forms. This connection, however, is not simple, as empirical evidence shows substantial inflexibility of unskilled labour and also the existence of local/regional sub-markets (for example in housing) within countries. The most discussed issue in this regard is the link between immigration and housing policy (McCrone and Stephens 1995: 232). There are different patterns among the EU countries: in France and Germany immigrants exert substantial pressure on the social rental sector, while in Austria they do not, because they simply do not get title at all on social rental housing.

The flexibility of tenure forms in the East European countries is very different. In some of the CEE countries there is already now a lively real estate market for owner-occupied housing while in other countries the problems of title-registration, availability of mortgage, lack of real estate information, etc., are serious impediments to a better functioning real estate market. In some of the Eastern European countries the real estate markets are still closed to foreigners (as a form of protection against rich buyers pushing up real estate prices to a level domestic buyers cannot afford). There are also arguments against the free mobility of labour because the relatively better-off countries of the region intend to protect their internal labour market from the large masses of unemployed population in the neighbouring eastern countries.

The social rental sector in the East European countries shows very substantial inflexibility as not only are immigrants excluded from the local allocation of public rental housing but also regional migrant families (they usually have to prove several years' work or residence in the given settlement before getting the right to apply for public rental housing).

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The necessity of regional planning

McCrone and Stephens (1995: 227) show the huge role regional policy plays in promoting flexibility in the housing market. Regional development policy is important, because:

those who take the investment decisions that determine the geographical pattern of economic activity do not themselves directly bear all the social and private costs they entail. . . . Regional policies encourage new investment and growth to take place in areas where surplus resources are available, especially labour.

As a consequence of the political push for rapid decentralisation and privatisation, and also due to the political will to eliminate the previously dominating central planning institutions and systems, urban structures became very imbalanced in most of the East European countries. Not only did politically determined long-term planning disappear almost totally but so did the very useful and necessary medium-term planning. Most local authorities prepare only yearly budgets without any further outlook on the consequences of their decisions or on the actions of other actors.

Public expenditures and housing policy

The well-known inflation, unemployment and budget deficit data clearly show the bad public finance situation of those East-Central European countries where the transition towards a market economy already started. The budget deficit in percentage of GDP is very different from country to country and, interestingly enough, in some of the eastern countries this indicator is smaller than in many of the EU countries: Bulgaria -11.5 per cent, Hungary -7.5 per cent, Poland -2.8 per cent, Slovakia -5.7 per cent, Czech Republic +1.0 per cent, Romania -4.3 per cent (source: ECE 1995: 171). The same applies for the unemployment figures: Poland 16 per cent, Slovakia 14.3 per cent, Hungary 10.4 per cent, Czech Republic 3.2 per cent (ECE 1995: 111).

There is a growing recognition in the EU countries that not only should the targeting of subsidies be examined when analysing the social effects of public policy, but also the targeting of tax exemptions (McCrone and Stephens 1995: 238). This topic is currently not yet discussed in most of the East-Central European countries as the introduction of tax relief has only just begun to be talked about.

Another new trend in the EU comes from the idea that public housing should not rely solely on public sector financing. As a result, there are growing efforts to push housing companies to borrow from the private capital market (McCrone and Stephens 1995: 239). The East-Central European countries are very far from this understanding: instead of building up an effective non-governmental

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public sector, currently they are working on the reduction of their existing (in most cases already small) public rental sector through give-away privatisation.

In both parts of Europe the home-ownership rate is increasing and, in fact, as a result of quick privatisation some East-Central European countries have higher ownership shares (Albania 98 per cent, Bulgaria 90 per cent, Romania 89 per cent, Slovenia 88 per cent, Hungary 86 per cent, Croatia 85 per cent, Lithuania 79 per cent) than most western countries. It is a very interesting topic for comparison, which aspects of the high home-ownership rates can have distorting effects on the economy of average households. In Western Europe the role of mortgage loans is much more substantial than in East-Central Europe, therefore countries with high ownership rates (e.g. Britain) are very sensitive on economy-regulating measures. In the eastern part of Europe it is not the extensive spread of mortgages that is the problem but just the opposite: having virtually no access to mortgages (because of low incomes and high inflation) many families who very recently became home-owners are getting into very difficult situations in order to try to cope with the growing problems (e.g. deferred maintenance, increasing utility and renovation costs) in relation to freshly privatised multi-family buildings.

In fact, there are substantial differences between the western countries and the same is true for the East-Central European countries. For example the particularities of the British housing market and policy (dominated by owner-occupation) lead to destabilising effects on the economy. This 'volatility effect' is much less substantial in the case of Germany or France, due to the lower proportion of owner-occupation, lower turnover rate, lower level of personal debt and lower level of variable interest rate mortgages. Some of the East-Central European countries (notably Slovenia, Hungary) are now moving exactly in the British direction: owner-occupation has become very high, the turnover rate is increasing, personal debts are starting to increase and variable interest rate mortgages have been introduced. In some of the other countries (e.g. Czech Republic, Slovakia) market-oriented changes are much slower to gain ground, leading probably to a less volatile model (which, however, also has its serious problems mainly in the inefficiency of the unchanged institutional structure).

Summary: housing aspects of the eastward extension of the EU

The aim of this chapter was to address three questions regarding the extension of the European Union into Eastern Europe. Concentrating on the housing policy point of view and based on our database we can reach the following conclusions.

EU considerations: why extend to the east?

The decision about the EU extension is, of course, not a housing matter. Among the main arguments for the extension we can mention the desire to push the

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immediate border (the limit of the safe area) of the EU to the east and the belief that the extension will create big new markets for many types of services.

As a consequence of the fact that housing is not a strong integrational factor, the extension of the EU has no particular dangers from this point of view. Those countries which are the most probable first candidates do not have extraordinary housing problems. The main housing problem facing these countries is not absolute housing shortage, but more qualitative types of problem (such as the low efficiency of the housing finance systems, the huge deferred maintenance in the urban multi-family stock, the low level of infrastructure outside the big cities) and affordability problems. Thus if the extension takes place, no big waves of migration are to be expected (at least not for housing reasons) but a big demand for more efficient housing finance systems, for urban renewal programmes and for means-tested targeted housing benefits. These are, of course, mainly the tasks of the nation-states and will only affect the EU in so far as these problems concentrate on some less developed regions. There will obviously be a demand for the EU programmes subsidising the underdeveloped regions – however, the fears about the collapse of the EU budget because of extension to the east seem to be exaggerated, and this can be avoided with careful analysis regarding the Structural Funds in the new situation. On the other hand, western housing companies and financial institutions will get good investment possibilities in the region:

- for financial institutions to develop mortgage instruments and long-term saving options for renovation and special methods for financing new construction in high inflationary environments
- for brokers to modernise the real estate industry to service the growing number of real estate transactions
- for the building industry to introduce energy-saving measures (especially in the case of the huge prefabricated housing stock with outdated insulation and district heating systems).

All these measures must, of course, take into account the low solvent demand of the population. The example of the quick eastward extension of the German *Bausparkasse* (contract-saving) system, however, proves that this market is worthwhile to deal with for the developed western institutions.

East European countries: why join the EU?

For the Central and Eastern European countries there are clear political and economic reasons to join the EU. It is the immense interest of most of the new democracies to join a bigger Community where they can feel safe from unwanted tendencies (e.g. ethnic wars in their neighborhood) and can become part of bigger economic co-operation (custom-union, free movement of labour, etc.). As already mentioned, to put these countries into such a safe position and ensure

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the circumstances for their economic development is also in the interest of the EU.

Even if housing policy is not unified within the EU, and there are very different solutions to the housing problems across the member states, there is a continuous information exchange among these countries. New candidates for EU membership feel the challenge to modernise public housing and urban planning policies and they need 'technical assistance' in this regard. Existing tendencies in Eastern Europe towards extreme decentralisation and give-away privatisation can easily lead to a very difficult situation in the housing sector from which the way out must be based on a careful re-evaluation of the role of the public sector. There are important lessons to learn from the EU experience, e.g. regarding the necessity to keep a substantial and well-organised, efficient non-profit housing sector. Another area for learning from the western practice could be the experience with different types of subsidies (e.g. tax reliefs) and taxation methods (e.g. real estate tax). Many of the East European countries are about to introduce such measures, which have a long history in Western Europe with considerable knowledge about their advantages and disadvantages.

There are, of course, also some fears on the side of the institutions and the population of the Eastern European countries about the possible negative effects of integration into the EU. The emerging financial institutions of the East-Central European countries are afraid of the competition the much more developed western financial institutions would cause. There are also discussions among population groups and real estate experts about the potential consequences of opening up the real estate market to foreign buyers: there is a chance of a mass influx of rich western buyers pushing up real estate prices. This is a real dilemma, and not even the solutions applied in the case of the new member states of the EU (e.g. Sweden, Austria) can serve as examples, because these countries have relatively high real estate prices preventing the influx of average income foreign buyers.

Which countries should join the EU first?

The short answer could be: those countries which are the best prepared to join, whose populations want this step and which are also accepted by the existing group of countries of the EU. Housing will obviously not be a decisive factor when measuring the 'preparedness' of a country to join. Our database gives a good background to show the most important differences in the housing situation between the different groups of countries who are candidates to join the EU. On the basis of the existing data and from an overview of policy development we can raise the hypothesis that the CEE countries are more prepared for integration than the NEE or the SEE countries. In the CEE countries not only have the first steps of a market-oriented change of housing policy (privatisation of public stock, withdrawal of budget subsidies) been carried out, but also some efforts to introduce new regulations and institutions to address the new

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challenges (e.g. condominium law, mortgage regulations and institutions, inflation-adjusted loan products, computerised real estate and land registration systems). However, even the CEE countries have a long way to go to address their growing affordability and housing renewal problems.

Another important factor is the kind of differences among the Central and East European countries regarding the desirability of joining the EU. The available information (based on public opinion surveys) shows that the desire in the population to join the EU is the highest in the CEE and SEE countries, while data on the acceptance of the countries by the population of the EU show preferences for the CEE and Baltic countries.

From our analysis it can be seen that there are some open questions on both sides regarding the housing-related consequences of the eastward extension of the EU. Current member states of the EU have a fear that the big demand for regional and structural funds will lead to the collapse of the EU budget, and that large masses of the population will look for jobs in the west. Banks of the East-Central European countries are afraid of the competition the much more developed western financial institutions would cause, and the population is afraid that rich western buyers will buy up the best parts of real estate in the Eastern European countries, and so on. It is certain that these considerations will be part of the discussions on the joining of the new countries to the EU.

The main conclusion of our analysis could be, however, that besides some problems, there are much bigger opportunities on both sides in connection with the eastward extension of the EU. The housing markets of the new member states will substantially increase the investment possibilities of the western financial institutions, housing and construction companies. And hopefully the local and central authorities of the East-Central European countries will get more advice and technical help to solve their housing problems, just as the present member states exchange information and good practice, despite the fact that housing is not regulated at the level of the EU.

Notes

- 1 Many ideas in this chapter are based on joint research with József Hegedüs.
- 2 The 1994 data do not yet show the increased utility prices; since then, in most countries, there have been further sharp utility price increases.
- 3 Countries included, in increasing order of 1990 GNP per capita: Spain, United Kingdom, the Netherlands, Austria, France, Germany, Sweden, Norway and Finland.
- 4 Comparator countries include, in increasing order of 1990 GNP per capita: Jordan, Colombia, Thailand, Tunisia, Jamaica, Turkey, Chile, Algeria, Malaysia, Mexico, South Africa, Venezuela, Brazil, Korea and Greece.
- 5 There are neither commonly accepted measures nor reliable data on the problem of 'deferred maintenance'. To highlight the magnitude of the problem in one concrete example: in one of the inner city districts of Budapest there are buildings built 80–100 years ago and never really renovated since then. The current market value

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per square metre of the flats in the run-down buildings is around US\$220–250. The renovation of the building, i.e. the solving of the deferred maintenance problem (without renovating the flats inside) would cost approximately US\$220 per square metre. As a result, the non-renovated flats in the renovated buildings would have a market value of US\$360–400. It can be seen that the costs of renovation necessary to handle the problem of deferred maintenance are higher than the value-increase of the flats. Additionally, it is clear that tenants currently occupying these flats cannot be forced to pay rents which would cover renovation costs.

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